

VZCZCXRO9243  
RR RUEHAG RUEHBC RUEHDE RUEHKUK  
DE RUEHFR #6594/01 2771029  
ZNY SSSSS ZZH  
R 041029Z OCT 06  
FM AMEMBASSY PARIS  
TO RUEATRS/DEPARTMENT OF TREASURY WASHDC  
RHEHNSC/NSC WASHINGTON DC  
RUEHC/SECSTATE WASHDC 1927  
INFO RUCNMEM/EU MEMBER STATES  
RUCNIRA/IRAN COLLECTIVE  
RUEHGG/UN SECURITY COUNCIL COLLECTIVE

S E C R E T SECTION 01 OF 04 PARIS 006594

SIPDIS

NOFORN  
SIPDIS

STATE FOR EB/ECS/TFS, EUR/WE  
TREASURY FOR TFI

E.O. 12958: DECL: 10/04/2016  
TAGS: [ETTC](#) [EFIN](#) [PTER](#) [PREL](#) [KTFN](#) [KNNP](#) [IR](#) [FR](#)  
SUBJECT: TREASURY U/S LEVEY MEETS WITH FRENCH GOVERNMENT ON  
IRAN

REF: LONDON 7073

Classified By: DCM Karl Hofmann for reasons 1.4 (b) and (d).

SUMMARY

-----  
11. (S/NF) On September 12-13, Treasury U/S for Terrorism and Financial Intelligence Stuart Levey led a Treasury-State delegation to Paris to meet with French officials and senior executives from France-based international banks to raise awareness of deceptive means employed by Iran-related banks, companies, and parastatals to fund terrorism and advance the Iranian regime's efforts to develop nuclear weapons. During a tense meeting, senior Finance Ministry officials expressed wariness of broad-based sanctions, irritation at the perceived attempt to move forward without G7 consensus and outright anger at U/S Levey's plan to approach French banks and the press. The MFA and France's national security advisor, Maurice Gourdault-Montaigne, were more receptive, but asked that any details regarding Iran's illicit activities be passed through formal channels. The French Central Bank Deputy Governor revealed that France already monitors Iranian banks more closely than others. Private bank representatives welcomed Treasury's presentation on Iran and stressed that they already are reluctant to pursue business with Iran. However, bank officials noted that French anti-boycott laws limit their ability to cut ties with Iran completely, so it is far easier to avoid business with specifically designated entities and individuals. END  
SUMMARY.

Banque De France: Iranian Banks Merit Special oversight

-----  
12. (S/NF) At the French Central Bank, Deputy Governor (and acting chair of the French Banking Commission) Jean-Paul Redouin said he was impressed by U/S Levey's presentation on the threat posed by Iran, and welcomed further contacts since such information-sharing had not happened before. As France's bank regulator, the Bank is responsible for overseeing compliance and has worked to implement the necessary internal controls to protect against both traditional (per Basel II) and non-traditional forms of illicit finance. While the Bank has no regulatory authority outside France, Redouin said that both the Bank and the Banking Commission want to ensure that large global banks like BNP Paribas, Societe Generale and Credit Agricole comply with international regulations. If the UN Security Council were to act against Iran, for example, he stressed that those in the banks in direct contact with Iranian customers would need firm guidance to enact any measures. Redouin

understood, however, that Levey was contemplating a much more comprehensive and creative approach, rather than strict compliance with rules and regulations. Responding to Redouin,s observations that no detection system can screen out all of the potentially bad transactions, Levey offered that businesses may want to avoid that business altogether, precisely because there is no way to be assured of complete detection.

¶3. (S/NF) Banking Commission Director Edouard Fernandez-Bollo noted France,s long history of strong anti-money laundering and counter-terrorism finance (AML/CFT) controls, pointing to the U.S.-French initiative to create the Financial Action Task Force (FATF) in 1989 as a hallmark of this effort. Emphasizing that banks need clear rules and reliable information, he said that French regulators would wait for a political decision and any accompanying guidance on Iran before integrating new controls into their compliance procedures. However, he remarked that no one should be &surprised to hear that Iran has been a focus8 of attention.

¶4. (S/NF) Redouin affirmed that the Central Bank conducts regular external audits on the four Iranian-based banks operating in France, putting the banks on notice that the regulators can access any information deemed necessary. Noting that he would hardly describe Iranian bank operations as &transparent,8 Redouin said inspectors already pay special attention to the Iranian banks. He emphasized, however, that this &special attention8 must be kept secret since the Bank is supposed to treat all banks equally. Fernandez-Bollo expressed relief that the U.S. had not uncovered specific illicit activity going through Iranian banks in France, giving him &some confidence8 in the

PARIS 00006594 002 OF 004

controls and auditing procedures already in place. Levey suggested that Fernandez-Bollo might consider the lack of such specific information as an indication of how much may be going on under the radar.

¶5. (S/NF) Responding to U/S Levey,s query on the impact of recent U.S. action against Iran,s Bank Saderat, Fernandez-Bollo said that it is too early to assess the full impact of the action on the bank,s French branch. Didier Bruneel, the Bank,s Director General for Operations, commented that Bank Saderat,s volume of activity in France is so small that it may be conducting other business through false entities, but French authorities would likely detect any illicit activity since they monitor the bank so closely. Bank Saderat,s French branch employs only 14 people and deals primarily in letters of credit to finance the sale of cars or car parts from Renault or Peugeot. Bruneel observed that &Paris is not a very friendly environment for (Saderat,s) activities.8 In response to U/S Levey,s proposal to exchange information informally with the Bank on both Bank Saderat and more broadly, Redouin said that the Bank has a reciprocal information sharing arrangement with the U.S. Federal Reserve, and this channel might serve this purpose.

Finance Ministry: French Tempers Flare, Dialogue Suffers

¶6. (S/NF) At a joint meeting with officials from the Ministry of Finance and the MFA, Xavier Musca, Director General of the Treasury and Political Economics, immediately launched into a virtual tirade, protesting U/S Levey,s plan to meet with &his8 French banks and to speak to the press. Resorting at times to petty remarks and flagrantly nationalistic vitriol, Musca said that the current U.S. initiative on Iran is unwelcome and premature. While he conceded that &something must be done8 on Iran, he argued that any action should be the result of a political process. Citing the G-7 approach to the 1997 Korean financial crisis as an example of proper coordination, he claimed to be &embarrassed8 that the U.S. had not coordinated its

approach with France since he believed the U.S. and France had agreed to build a common U.S.-French view on proliferation finance.

17. (S/NF) Specifically, Musca took issue with the approach on two levels. First, he remains unconvinced by the notion that &moral suasion8 (i.e., getting banks to take action on their own accord to protect against reputation risk) will prevail. Second, he said that defining the precise entities to target would prove too difficult. To underscore his displeasure, Musca expressed dismay that &his banks8 as well as the press could misconstrue U.S. statements as having been coordinated with France. Phillipe Carre, Director for Strategic Affairs at the MFA, registered his concern over the press angle, noting that France is not yet discussing publicly the notion of sanctions against Iran.

18. (S/NF) U/S Levey assured Musca and Carre that the political discussions on Iran are continuing on a completely separate track from our discussions on the threat that Iran poses to the safety and security of the financial sector. U/S Levey asserted that those in the private sector responsible for protecting the financial sector can act independently of that political process, provided they have the right information. He stressed the fact that the U.S. is not asking anyone to take any specific actions, but rather seeks to share the kind of information that may be useful to banks as they make their own business decisions. Noting that no other member of the G7 had reacted so strongly to U.S. engagement of banks, U/S Levey reminded Musca that the U.S. Treasury meets frequently with international banks in a variety of settings, making the current initiative ordinary. U/S Levey agreed, however, that he would be very clear in his approach to French banks and the press that he was not speaking on behalf of the French Government.

19. (S/NF) Referring to U/S Levey,s detailed presentation on Iran, Musca said he was struck by the neutral names chosen by some of the Iranian entities, and sought verification they are engaged in proliferation. He also inquired whether information about a named French company allegedly involved with an Iranian entity tied to Iran,s missile program had been passed to the GOF. Carre noted that, according to the sanctions currently under discussion, banks would be able to

PARIS 00006594 003 OF 004

freeze assets and stop transactions related to such activity. Musca observed that sanctions would induce Iran to use offshore financial centers even more. U/S Levey agreed, which is why the U.S. wants to alert banks to the extent of Iran,s abuse of the financial system.

110. (S/NF) Following the briefing, Musca emphasized that he wants to come to terms with the USG on Iran, since France,s political position on terrorism finance and proliferation is unambiguous, but he disagrees with the scope and the strategy. Citing Peugeot as an example, Musca explained that Peugeot operates a plant in Iran; according to Iranian law, an Iranian entity must hold the majority stake in any joint venture with an international partner. By asking a French bank to cut off ties with Iran, the bank faces the difficult decision of risking sanctions or damaging the French partner. Musca argued that there are two policy options: the USG approach, which would ultimately isolate Iran completely, or an attempt to isolate only proliferation-related transactions. Carre conceded that Iran,s use of front companies would make the latter virtually impossible to track, so the logical ) but perhaps untenable -- conclusion would be to terminate all business with Iran.

Elysee Palace: French Interested, But Cautious

111. (S) In a late meeting with Presidential Diplomatic Advisor Maurice Gourdault-Montagne (MGM), U/S Levey reviewed his conversations with the Banque de France and Finance Ministry, and previewed his talks the next day with French

banks. MGM welcomed U/S Levey's visit and said the GOF remained very interested in the range of measures U/S Levey had come to discuss. MGM noted that he had just come from a meeting between President Chirac and an Iranian envoy, and lamented that negotiations with the Iranians remained extremely difficult and delicate. He urged Levey to use extra caution when meeting with the press to discuss his visit, given the sensitive nature of P3 3 discussions about a sanctions resolution against Iran in the UNSC. Levey reassured MGM that his visit was taking place in a context separate from the P3 3 framework.

#### BNP Paribas: Ramping Up Vigilance, but Reducing Exposure

¶12. (C) BNP CEO Baudouin Prot (please protect) welcomed the detailed presentation on Iran and recounted how he had been in NYC on 9/11, so he does not underestimate the threat of terrorism. He emphasized that BNP scrupulously respects U.S. laws and regulations, and in 2003, he personally implemented a new compliance function at BNP to address AML/CFT concerns.

Prot outlined BNP's policy toward states of concern such as North Korea (no business at all), Syria (limited engagement), Lebanon (extremely challenging environment; eager to sell investments, but not easy; now cautious about extending new loans), and Iran.

¶13. (C) According to Prot, BNP's relationship with Iran dates back half a century. Objectively, Iran makes punctual payments and is a fairly good credit risk in banking terms. Over the last 18 months, however, BNP has reduced the overall size of its business with Iran, implemented a case-by-case senior-level review of all (&100 percent8) Iran-related business, and incorporated all U.S.-listed entities (OFAC, etc.) into its filters. Vivien Levy-Garboua, BNP head of compliance, said BNP's last large transaction with Iran was in 2005 for an oil tanker that was 90 percent guaranteed by South Korea's export agency. She confirmed that BNP does participate in Iran's oil trade, and does conduct U-turn transactions, but is now trying to reduce them since tracing these transactions is so hard.

¶14. (C) Despite these actions, Prot explained that BNP must deal with French anti-embargo laws that were put in place in the 1970s to counter the Arab states, boycott of Israel. Also, on a practical level, Prot pointed out that both Peugeot and Renault are manufacturing and exporting cars and parts to Iran, so any move to effectively stop trade with Iran would be a big problem. Levy-Garboua added that implementing OFAC lists is difficult because BNP handles so many transactions, but it is doing so worldwide. In conclusion, Prot promised to engage with the USG in as open a manner as possible, since BNP wishes to be both a good corporate citizen and a good citizen of the western world &at a time when you have to know where you belong.8 Prot

PARIS 00006594 004 OF 004

expressed a willingness to develop a continuous, real-time dialogue with the U.S. to help improve BNP's level of scrutiny, but cautioned against being &too noisy8 about it.

#### Societe Generale: Receptive to the Message, but Pragmatic

¶15. (C) At a meeting notable for the presence of a member of the French Banking Commission, Societe General bank CEO Daniel Bouton (please protect) listened intently to Treasury's presentation and assured U/S Levey that SocGen is complying with all relevant U.S. and French regulations. Commenting that few people have much affinity for the Iranian regime, he said he personally decided 10-12 years ago that SocGen would eliminate any significant involvement in Iran. However, he cited the same anti-boycott constraints that BNP mentioned, noting that it is easier to avoid business with specifically designated entities and individuals. He said the main challenge is detecting front companies, and banks must rely on governments for that information. Turning to his chief compliance officer, Christopher Davies, Bouton

asked how SocGen would detect such attempts to conceal illicit activity -- and was clearly surprised to hear that it,s close to impossible to detect such activity with existing internal controls. Bouton expressed concern over SocGen,s exposure to Iran in export credits. SocGen relies on well-known French clients and French Government guarantees that a &bus maker in Iran is really a bus maker.<sup>8</sup> Davies added that SocGen must rely on the government to do its own due diligence, but at the end of the day, the banks are at risk. U/S Levey agreed that this gray area poses a real challenge for banks.

¶16. (C) On the recent U.S. action against Bank Saderat, Bouton,s staff asked if the U.S. intends to expand the U-turn ban to other Iranian state-owned banks. Bouton observed that such a ban on one Iranian bank, maybe even two banks, would be no problem, but a wider ban on all Iranian state-owned banks may create legal issues with France,s anti-boycott restrictions. U/S Levey said that the U.S. has not yet made any decision to ban other Iranian banks from the U-turn transaction. In conclusion, Bouton reiterated his desire to not develop business with Iran, and for governments to provide clear rules on how banks should weigh the risks of servicing its clients.

COMMENT

-----

¶17. (S/NF) Although the visit had its tense moments, it is nonetheless clear that the GOF remains committed to seeking consensus on possible Iran sanctions, and the French private sector is already taking steps to reduce its exposure in Iran. Nonetheless, each French interlocutor was considerably more comfortable with the idea of targeted sanctions against named individuals and entities, as opposed to broad global sanctions against Iran.

¶18. (U) U/S Levey has cleared this message.

Please visit Paris' Classified Website at:  
<http://www.state.sgov.gov/p/eur/paris/index.c> fm  
STAPLETON